

September 3, 2002

To: Supervisor Zev Yaroslavsky, Chair
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

STATE LEGISLATIVE UPDATE

State Budget Update

On Saturday, August 31, 2002, almost two months after the start of the fiscal year, the Legislature adopted a budget before its scheduled recess at midnight. The adopted budget, which still must be signed by the Governor, reflects an 11th hour compromise between Assembly Democrats and Republicans that contains key elements of the respective positions both sides had battled over since the Senate adopted a budget on June 30. While leaders on both sides declared victory before they went home, a significant part of the problem was shifted to the Governor and the Director of Finance, who must quickly identify up to \$750 million in cuts to State operations to balance the budget. Moreover, the failure to include any tax increases, combined with the heavy reliance on one-time savings and revenue enhancements, postpones the real problem to future years.

Details of the budget compromise are still sketchy since none of the bills are available. However, based on news accounts and bill summaries distributed on the floor to members, the compromise incorporates the Senate approved budget, AB 425 and its trailer bills, but modifies them in significant ways.

Reflecting Republican opposition to tax increases, the adopted budget contains only \$2.4 billion in "revenue enhancements" (as compared to \$3.9 billion of new revenue in the Senate budget) with half of that a result of a two-year suspension of the net-operating loss deduction for businesses. Both the Senate approved temporary increase in the VLF and the Speaker's proposal for a \$2.13 per pack increase in the cigarette tax were rejected.

To compensate for the \$1.5 billion reduction in revenue, the compromise package calls for an additional \$1.7 billion of budget reductions. Some \$700 million of that amount will result from a \$700 million fund shift of Proposition 98 funding for schools into FY 2003-04 and up to \$750 million additional is delegated to the Director of Finance to make reductions of up to 5 percent in State operations. It is unclear at this time where the additional \$250 million of reductions will come from, unless it is estimated savings from the early retirement incentive (a two-year service credit) that the Governor was directed to implement by Executive Order.

Additional components of the compromise include Senator Burton's proposal to establish a bi-partisan commission to totally reevaluate the State-local fiscal system (which we reported on in the August 19, 2002 State Legislative Update) and a modified version of Assembly member Keith Richman's proposed constitutional amendment - ACA 11 - which would dedicate 3 percent of the State general fund to State and local infrastructure projects (approximately \$3.6 billion) through a series of transfers over time, contingent on the condition of State finances. The amendment would not be on the ballot until 2004. Finally, the package includes a spending cap that would require State expenditures not to exceed revenues in FY 2003-04.

The good news for counties is that they do not appear to have suffered any additional cuts beyond what was already in the Senate approved budget. Consequently, the \$131 million loss of funding shown in the last column for AB 425 on the attachment continues to be the impact to the County of the adopted budget. However, it is widely believed that the Governor will line item veto \$200 million - \$300 million of items in the budget before signing it and he may be tempted to take many of the cuts to County-administered health and human services proposed in his May Revision but restored by the Legislature.

Looking to the future, the State will face a significant budget problem next year with very limited options for a budget solution.

SIGNIFICANT COUNTY-INTEREST BILLS

Numerous bills of interest to the County were the subject of legislative activity during the four, hectic final weeks of August. The Governor has until September 30, 2002, to act on legislation passed by the Legislature before September 1 and in his possession on or before September 1. The Legislature will adjourn *sine die* at midnight on November 30, 2002. The 2003-04 Regular Session of the Legislature will convene on December 2, 2002.

Highlights of bills of interest to the County are described below. A complete list of final legislative actions on all county interest bills will be submitted in the immediate future.

Elections

County-opposed AB 2596 (Elections Committee), an urgency bill that would require the tabulating and reporting of election results, including absentee ballots, by precinct, was amended on August 31, 2002 to only address a farm worker collective bargaining issue, and was sent to the Governor.

County-opposed SB 1975 (Johnson), which would move the presidential primary to June, but leave other primary elections in March, was sent to the Governor. If signed, the measure will result in three elections during presidential election years.

Employee Relations

County co-sponsored AB 507 (Havice), which had been amended to delete County-opposed provisions mandating two additional labor members to LACERA's Board of Investments and to allow the Board of Supervisors to ask LACERA to adopt a "corridor funding" policy for benefit enhancements, died on the Assembly Inactive File. There was a difference of opinion among labor representatives about how many employees should be covered by a corridor-funding policy.

County-opposed AB 1847 (Correa), which would create a disability presumption for safety employees exposed to biochemical substances, was sent to the Governor.

County-opposed AB 2006 (Cedillo), which would mandate Mega Flex benefits for County physicians and dentists who have unionized, was sent to the Governor.

County-supported AB 2777 (Nation), which allows the Board of Supervisors to extend survivor benefits to domestic partners, was sent to the Governor.

County-opposed SB 1351 (Chesbro), which would provide enhanced disability benefits to welfare fraud investigators, was vetoed by the Governor because of potential costs.

County-opposed SB 1609 (Soto), which creates a disability presumption for County health care employees who develop a blood-borne infectious disease after a documented "needlestick", was sent to the Governor.

Public Protection

County-supported AB 415 (Runner), which formalizes the statewide Amber Alert system and gives operating responsibility to the California Highway Patrol, was sent to the Governor.

County-supported AB 496 (Koretz), which would subject firearms manufacturers to the same liability standards as makers of other products, was sent to the Governor.

County-supported AB 1838 (Hertzberg), which would increase penalties for acts of terrorism and expand the definition of weapons of mass destruction, was sent to the Governor.

County-supported AB 1990 (Liu), which would apply asset forfeiture statutes to profit-motivated felonies committed by active participation in street gangs, was sent to the Governor.

County-supported AB 2075 (Chavez), which would authorize the Probation Department to bill offenders, who commit profit-motivated crimes, for some additional services, was sent to the Governor.

County-supported AB 2238 (Dickerson), which would enact the Public Safety Officials Home Protection Act and restrict access to records that contain personal information of elected and appointed officials, was sent to the Governor.

County-supported AB 2729 (Wesson), which would provide increased access to counseling services for victims of domestic violence by expanding the Victims of Crime Program to include reimbursement for domestic violence peer counselors, was sent to the Governor.

County-supported SB 510 (Scott), which would make it a misdemeanor to knowingly possess weapons, replica weapons, and parts of weapons within secured areas of an airport, was sent to the Governor.

County-supported SB 1287 (Alarcon), which would increase penalties for acts of terrorism, was sent to the Governor.

Trial Courts

County-supported SB 1732 (Escutia), which establishes a process for transferring the responsibility for providing and maintaining trial court facilities from the County to the State, was sent to the Governor.

Health

County-opposed AB 883 (Florez), which would require counties with a Maddy Emergency Medical Services Fund to redistribute unspent funds to other counties, was held in the Assembly Health Committee.

County-supported AB 915 (Frommer), which would create a supplemental Medicaid payment for hospital-based outpatient services and Adult Day Health Services, was sent to the Governor. The Department of Health Services' projected savings from this bill would be approximately \$13 million.

County-supported AB 982 (Firebaugh), which establishes the Dental Corps Loan Assumption and the Physician Corps Loan Assumption Programs, was sent to the Governor.

Mental Health

County-supported in concept AB 1421 (Thomson), which would create a county-optional assisted outpatient treatment program for certain mentally ill persons, was sent to the Governor.

Parks and Resources

County-supported AB 716 (Firebaugh), which would appropriate \$219,765,000 authorized under Proposition 40 for the acquisition, restoration, preservation, and interpretation of California's historical and cultural resources, was sent to the Governor. AB 716 allocations to the County of Los Angeles include \$9.335 million for acquisition and development of local parks and \$2.334 million for the El Pueblo Cultural and Performing Arts Center. In addition, the bill appropriates \$11,669,000 to the City of Los Angeles of which \$1 million is for the Grand Avenue Project.

County-sponsored SB 238 (Kuehl), which would authorize the County to use State bond funds to construct and operate a public library at Schabarum Regional Park, was sent to the Governor.

Revenue

County-opposed AB 81 (Migden), which makes permanent the revenue windfalls that resulted from the movement of electric generating facilities from assessment by the State Board of Equalization to local assessors, was signed on June 21, 2002, as Chapter 57, Statutes of 2002.

County-opposed AB 934 (Hertzberg), which would provide a modified trial *de novo* in superior court for property owners wishing to challenge county boards of equalization and assessment appeals boards, was held in the Senate Committee on Rules.

Other

County-sponsored AB 2372 (Washington), which would require retail establishments utilizing scanner point-of-sale checkout systems to incorporate visual pricing displays, was sent to the Governor.

County-supported AB 2424 (Goldberg), which would authorize school districts to form a district-wide local school construction authority to assume responsibility for school construction, was sent to the Governor.

County-supported SB 390 (Escutia), which would require the State Department of Education to develop a State Master Plan for Child Care and Development, was sent to the Governor.

County-supported SB 1427 (Escutia), which would make the Low-Cost Automobile Insurance Program permanent in Los Angeles County and in the City and County of San Francisco, was sent to the Governor.

We will keep you advised of the Governor's actions as well as additional budget details as bills become available.

DEJ:GK
ML:IGR:md

Attachment

c: Executive Officer, Board of Supervisors
 County Counsel
 All Department Heads

Each Supervisor
September 3, 2002
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Legislative Strategist
Local 660
Coalition of County Unions
California Contract Cities Association
Independent Cities Association
League of California Cities
City Managers Associations
Buddy Program Participants